



**Internship Report**  
**On**  
**CREDIT RISK MANAGEMENT OF SOUTHEAST BANK**  
**LIMITED**  
**SATMASJID ROAD BRANCH, DHANMONDI, DHAKA**



**CREDIT RISK MANAGEMENT OF SOUTHEAST BANK LIMITED**  
**SATMASJID ROAD BRANCH, DHANMONDI, DHAKA.**

**Supervised By**

**Iffat Tarannum**

Lecturer

Department of Business Administration  
BRAC University

**Prepared by:**

**Nibisha Afrin**

ID: 10104178

Department of Business Administration  
BRAC University

**Date of Submission: 30<sup>th</sup> August**



**Letter of Transmittal**

Date: 30<sup>th</sup> August, 2015

To

Iffat Tarannum

Lecturer

BRAC University

**Sub:Submission of Internship Report.**

Dear Honorable Teacher,

I am submitting my internship report on **Credit Risk Management of Southeast Bank Limited** at Sat masjid Road Branch, Dhanmondi Dhaka. This was assigned to me as a part of my BBA program. To prepare this report I have conducted interview with the officials of the bank to collect my required data, papers and documents etc. I have completed my internship and now prepared the internship report.

Your acceptance and appreciation would surely inspire me. For any further explanations about the report, I will be gladly available to clarify all the things. Would you please kindly accept my report and oblige thereby.

Sincerely yours

Nibisha Afrin

ID-10104178

Major in HR

Department: BBA

BRAC University

### Acknowledgement

For the successful accomplishment of this report, first of all I would like to thank Almighty Allah, and next I would like to thank my parents who have always given me enough support to reach at this position and tried their level best so that I achieve success at every step of my life. Next, with warm gratitude from the deepest of my heart I would like to recall all of them who have helped me from every side in accomplishing this report as well as my internship program.

I am ever grateful to my supervisor Iffat Tarannum, Lecturer of Business Administration, BRAC University.

I am extremely grateful to Senior Vice President Abidur Rahman Chowdhury, and all Staffs of **Southeast Bank Limited** at Sat masjid Road Branch who gave me immense support, guidance and information required for completing my report on “**Credit Risk Management of Southeast Bank Limited**” Sat masjid Road, Dhanmondi branch, Dhaka.

## EXECUTIVE SUMMARY

This report is an effort to reflect a clear idea about the strategies, activities and performance of Southeast Bank Ltd. regarding its commercial activities with a special reference to Credit management or Business. The Internship report has been prepared on **“Credit Risk Management of Southeast Bank Ltd.”** based on primary and secondary data collected from various sources. Now-a-days, Banks and Financial Institutions are becoming very competitive and various kinds of services and products provided by financial institutions are increasing with rapid growth. The information used in the report has been collected from various sources such as published materials like annual report, the credit manual of SEBL, daily statement of affairs of SEBL Dhanmondi branch and articles related to banking activities. This report has been prepared to represent the available product & service facilities, service quality, their efficiency to serve customer, terms and conditions etc. Southeast Bank always tries to launch new products and services according to customers taste and preference. SEBL works with the aim to achieve service excellence and maximize shareholder’s value. SEBL has a total of 114 branches all over Bangladesh. SEBL also have to consider their fees and charges & their formal procedure and should change them and from the financial performance analysis it is found that, Southeast Bank Ltd. had some difficulties in the past, but in the last five years, it experienced growth in their operations. Their special banking services like – Internet Banking, Online Banking etc. are very effective to create customer satisfaction. Southeast bank Ltd. had significantly reduced its various risk elements. All of its credit risk exposures show that the management has been able to reduce the credit risk. There are more Private Banks in Bangladesh and that is why competition is very high, so it becomes a challenge for SEBL to retain its existing customers. There is a fact that SEBL is always very conscious about its consumer banking and always tries to adapt to changes over time and wants to modernize its products and services.

**List of Abbreviations:**

<b>Short forms</b>	<b>Abbreviations</b>
SEBL	Southeast Bank Limited
Ltd.	Limited
BBA	Bachelor of Business Administration
CRM	Credit Risk Management
RM	Relationship Manager
A/C	Account
CD	Current Account
SB	Savings Account
STD	Short Term Deposit
MSS	Monthly Saving Scheme
DGDS/ TGDS	Double/Triple Growth Deposit Scheme
SME	Small Medium Entrepreneur
ATM	Automated Tailor Machine

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# CHAPTER ONE

## INTRODUCTION

## **1.1 AN OVERVIEW OF SOUTHEAST BANK LIMITED**

Southeast Bank Limited is a fast growing 2<sup>nd</sup> generation bank. The Bank has been achieving a continuous growth rate in different spheres of banking operations since its establishment in the year 1995. The philosophy of the bank is “A Bank with Vision” that indicates its sincerity, integrity as well as the strength of mind to cope with the global competitiveness and advancement. The emergence of Southeast Bank Limited was at the juncture of liberalization of global economic activities. It is a scheduled commercial bank in the private sector established under the ambit of Bank Company Act 1991 and incorporated as a Public Limited Company under Companies Act 1994 on March 12, 1995. The Bank started commercial banking operations with the vision to stand out as a pioneer banking institution in Bangladesh and contribute significantly to the national economy on May 25, 1995.

It is a second generation Bank and its Certificate of commencement of business of the Bank was issued by the Registrar of Joint stock Companies & Firms and was also dated March 12, 1995. The Banking License for the Bank was issued by Bangladesh Bank on March 23, 1995. The Bank inaugurated its first branch at the busiest commercial hub of the country at 1, Dilkusha Commercial Area, Dhaka and was opened on May 25, 1995 by Mr. M. Saifur Rahman, Former Finance Minister, Government of the People’s Republic of Bangladesh as the chief guest.

The Bank is managed by a team of efficient professionals. There prevails a positive organizational climate in the Bank that generates feeling of dignity, trust, discipline and openness in its people that result in motivating them to post better result continuously in the Bank. The cultures of maintaining congenial work-environment in the Bank has further enabled the staff to benchmark themselves better against management expectations. A commitment to quality and excellence in service is the benchmark of their identity.

Southeast Bank today is a synonym of quality banking products; it has a diverse array of carefully tailored products and services to cater to the needs of all customer segments. The Bank

structured its operational strategies to address the special and often complex needs of the customers.

#### **1.1.1 CAPITAL BASE:**

Authorized Capital: Tk. 10,000.00 Million

Paid Up Capital: Tk. 8732.86 Million

#### **1.1.2 VISION & MISSION:**

##### **VISION:**

- To stand out as a pioneer banking institution in Bangladesh.
- Contribute significantly to the national economy.

##### **MISSION:**

- High quality financial services with the help of the latest technology.
- Balanced growth strategy.
- High standard business ethics.
- Innovative banking at a competitive price.
- Attract and retain quality human resource.
- Firm commitment to the society and the growth of national economy.

#### **1.1.3. CORE VALUES & STRENGTHS:**

##### **CORE VALUES:**

- Integrity & Fairness
- Harmony
- Insight and Spirit
- Enthusiasm for Work
- Business Ethics

##### **CORE STRENGTHS:**

- Transparent and swift decision making
- Professional team of performers
- Satisfied clients
- Internal control
- Experienced risk administration

#### 1.1.4. COMMITMENTS:

- Provide services with high degree of professionalism and use of modern technology.
- Create long term relationship based on mutual trust.
- Response to customers' needs with speed and accuracy.
- Provide products and services at competitive pricing.

#### 1.1.5. SOUTHEAST BANK AT A GLANCE

PARTICULARS	SOUTHEAST BANK LIMITED
<b>Date of Incorporation</b>	March 12, 1995
<b>Philosophy of the Bank</b>	"A Bank with Vision"
<b>Vision</b>	To stand out as a pioneer banking institution in Bangladesh & to contribute significantly to the national economy.
<b>Missions</b>	1. High quality financial services 2. With the help of the latest technology. 3. Fast and accurate customer service. 4. Balanced growth strategy. 5. High standard business ethics. 6. Innovative banking at a competitive price.
<b>Branches</b>	114 Branches
<b>Authorized Capital</b>	Tk. 10,000.00 Million

Table: 1

#### SOUTHEASTBANK AT PRESENT:

Balance Sheet Matrix (as on Dec 31, 2014)	
Particulars	Southeast Bank Limited
<b>Authorized Capital</b>	Tk. 10,000.00 Million
<b>Paid Up Capital</b>	Tk. 8732.86 Million
<b>Reserve Fund</b>	Tk. 13,074.71Million
<b>Total Assets</b>	Tk. 220,930.85 Million

<b>Fixed Assets</b>	Tk. 7,795.65 Million
<b>Deposit</b>	Tk. 177,519.46 Million
<b>Advance</b>	Tk. 134,863.82 Million
<b>Investment</b>	Tk. 57,589.06 Million

<b>Income Statement Matrix (as on Dec 31, 2014)</b>	
<b>Particulars</b>	<b>Southeast Bank Limited</b>
<b>Total Income</b>	Tk. 26,918.30 Million
<b>Total Expenditure</b>	Tk. 20,218.11 Million
<b>Operating profit</b>	Tk. 6,700.20 Million
<b>Net Profit After Tax &amp; Provisions</b>	Tk. 3,378.82 Million

<b>Capital Measures (as on Dec 31, 2014)</b>	
<b>Particulars</b>	<b>Southeast Bank Limited</b>
<b>Total Capital (Tier 1+ Tier 2)</b>	Tk. 21,807.57 Million
<b>Risk Weighted Assets</b>	Tk. 125% of investment value
<b>Capital Adequacy Ratio</b>	10.90%

<b>Credit Quality (as on Dec 31, 2014)</b>	
<b>Particulars</b>	<b>Southeast Bank Limited</b>
<b>Classified Loan</b>	Tk. 5,350.24 Million
<b>Provision for Unclassified Loan</b>	Tk. 4,673.95 Million
<b>Provision for Classified Loan</b>	Tk. 2326.21 Million
<b>NPL as a % of Total Loan</b>	4.47%

Table: 2

### 1.1.6. CREDIT FACILITIES:

Types of Credit Facilities	
	Southeast Bank Limited
<b>Funded Credit Facility</b>	Loans- 1. Demand Loan 2. Time Loan 3. Term Loan
	Overdraft- 1.Overdraft against pledge of goods 2.Overdraft against hypothecation of goods
	Other Funded Facilities- 1.Bills under L/C (BLC) 2.Loans against Imported Merchandise (LIM) 3.Trust Receipt 4.Packing Credit
<b>Non- Funded Credit Facility</b>	1. Letter of Credit (L/C) 2. Bank Guarantee

Table: 3

## **1.2 BACKGROUND OF THE STUDY**

Bank is committed to provide high quality financial services/products to contribute to the growth of the country through stimulating trade and commerce, accelerating the pace of industrialization, boosting up export, creating employment opportunity for the youth, poverty alleviation, raising standard of living of limited income group and overall sustainable socio-economic development of the country. In achieving the aforesaid objectives of the Bank, Credit Operation of the bank is of paramount importance as the greatest share of total revenue of the Bank is generated from it, maximum risk is centered in it and even the very existence of bank depends on prudent management of its credit portfolio. The failure of a commercial bank is usually associated with the problem in credit portfolio and it's less often the result of shrinkage in the value of other assets. As such, credit portfolio not only features dominant in the assets structure of the bank, rather it is crucial to the success of the bank also.

Even though one of the major causes of serious banking problems continues to be the ineffective credit risk management, the provision of credit remains the primary business of every bank in the World. For this reason, credit quality is considered a primary indicator of financial soundness and health of banks. Interests that are charged on loans and advances form sizeable part of banks' assets. Default of loans and advances poses serious setbacks not only for borrowers and lenders but also to the entire economy of a country.

Increasing level of non-performing loan rates in banks' books, poor loan processing, and undue interference in the loan granting process, inadequate or absence of loan collaterals among other things are linked with poor and ineffective credit risk management that puts a negative impact on banks profitability. As a result, there is a huge likelihood of widespread impact on the economy in connection with banks failure, so the management of credit risk is a topic of great importance since the core activity of every bank is credit financing. However, the most vital of all risks is the credit risk and therefore, it demands special attention and treatment.



### **1.3 ORIGIN OF THE STUDY**

Bachelor of Business Administration (BBA) degree requires a three months attachment with an organization followed by a report assigned by the faculty supervisor. I got the opportunity to do my internship in Southeast Bank Limited at Sat masjid Road Branch, Dhanmondi, Dhaka. I have conducted my study on “Credit Risk Management of Southeast Bank Limited”. My faculty supervisor Iffat Tarannum, Lecturer of BRAC University, also approved the topic and authorized me to prepare this report as part of the fulfillment of internship requirement and gave me proper guidance and assistance over time.

Credit risk management is a common issue of concern among financial institutions all around the globe. A study conducted on credit risk management techniques of contemporary financial institutions is sure to benefit all of us. Therefore, the study has been timely and worthwhile.

### **1.4 RATIONALE OF THE STUDY**

The internship program is very helpful to bridge the gap between the theoretical knowledge and real life experience by being a part of the Bachelor of Business Administration (BBA) program. This internship report has been designed to gain a practical experience through the theoretical understanding. For the completion of this internship program, I have been placed in a Bank named “Southeast Bank Limited”.

The importance of the credit risk management and its impact on profitability has motivated us to pursue this study. Basic assumption is that if the credit risk management is sound, the profit level will be satisfactory. The other way around, if the credit risk management is poor, the profit level will be relatively lower, because the less the bank makes loss from credits, the more the bank will gain.

The central question is “How significant is the impact of credit risk management on profitability”? This thesis is an endeavor to find the answer.

Since we believe that credit risk management is a very complex issue, it requires a deliberate qualitative study supplemented with quantitative study to achieve the desired goal.

## **1.5 OBJECTIVES OF THE STUDY**

The study has been undertaken with the following objectives:

### **BROAD OBJECTIVES:**

- To have better orientation on credit management activities specially credit policy and practices, credit appraisal, credit-processing steps, credit management, financing in various sectors and recovery, loan classification method and practices of Southeast Bank Ltd.
- To evaluate the techniques for credit risk management used by Southeast Bank Ltd.
- To compare the existing credit approval and monitoring process of Southeast Bank Ltd.
- To identify and suggest scopes of improvement of existing methods of loan approval, maintenance and monitoring in the credit division of Southeast Bank Ltd.

### **SPECIFIC OBJECTIVES:**

- To focus on the status of classified loans in Southeast Bank Ltd.
- To find out the factors affecting classified loan and the extent of the influence of the affecting factors.
- To focus on the role of credit risk management when carrying out lending decisions.
- To determine the extent to which non-performing loans affect banks profitability.
- To focus on the impact of loan loss provisions on banks profitability.
- To know about loan defaulting and loan classification and use of Credit Risk Grading (CRG) in Credit Management.

## **1.6 SCOPE OF THE STUDY**

- This report mainly emphasizes on the sequential activities involved in credit approval process, analytical techniques used by Southeast Bank Ltd. for credit analysis as an integral part of the credit approval process.
- This report also focuses on the loan risk management techniques adopted by Southeast Bank in pre-sanction and post-sanction period of a credit.

- This report incorporates an evaluation of the different aspects of the lending process and monitoring techniques and to find out some problems and making some recommendations.
- This report focuses on the relationship between bank's profitability with credit risk management.
- Finally the recommendations & findings are based on the efficiency of the bank regarding its credit risk management.

## **1.7 LITERATURE REVIEW**

According to the Reserve bank of Zimbabwe, risk management operating document (2004), credit risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. Credit risk arises from uncertainty in counterparty's ability or willingness to meet its contractual obligations. Basis (1998) includes a decline in the credit standing of counterparty as part of credit risk. Credit risk management covers both the decision making process, before the credit decision is made and the follow-up of credit commitments plus all monitoring and reporting processes (Miller, 1996).

While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to the lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationship between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. (Basel Committee on Banking Supervision, 1999)

The Basel Committee for Banking Supervision has painstakingly constructed an accord that will revolutionize financial institutions. In particular, under Pillar 1, the committee has defined a very comprehensive set of formulas that will allow banks to calculate their minimum capital requirements in order to safeguard the financial institution against credit risk. What the committee has not done, and rightly so, is to define how banks should arrive at the inputs to those formulas. Every bank is left to define for itself what data to record and store and how to manipulate the data in order to "feed" those long formulas (Peldec Decision System, 2004)

Credit risk is the single most important source of potential losses for banks and determining the adequacy of both the bank's capital and loan loss reserves at any given time has long been a big challenge. The first step is to gain a complete understanding of your bank's overall credit risk by viewing risk not only at the individual account level, but at the customer and portfolio levels as well.

While banks strive for an integrated understanding of their risk profiles, losses still remain within most banks and information is scattered among business units, but without a thorough risk assessment, you have no other way of knowing if your capital reserves accurately reflect the risks you face or if your loan loss reserves adequately cover potential short-term credit losses, vulnerable banks are targets for regulatory and investor scrutiny and debilitating losses. (SAS Institute Inc., 2005)

Bangladesh Bank initiated plans for implementation of Basel-II in 2011, for which most of the banks of the developing countries are not well prepared. Moreover, some of the 1998 previous Basel Accord is yet to be fulfilled by some banks. Nevertheless, SEBL has been practicing and considering both 'market risk' in addition to credit risk since its inception. In order to be more articulated and derive the benefits of orchestral effects, the management of the Board modified its organogram, separating the corporate and retail functions from credit functions. Two new divisions namely Corporate Banking Division and Retail Banking Division were thereby created, who were entrusted with the authorities and responsibilities of analyzing and rating of credit proposals, while the credit risk manager (CRM) is entrusted with the credit risk assessment. (SEBL Annual Report, 2010)

Credit risk is defined by Heffernan (1996) as the risk that an asset or a loan becomes irrecoverable in the case of outright default, or the risk of delay in the servicing of the loan. In either case, the present value of the asset declines, thereby undermining the solvency of a bank. Credit risk is critical since the default of a small number of important customers can generate large losses, which can lead to insolvency. Credit risk is by far the most significant risk faced by banks and the success of their business depends on accurate measurement and efficient management of this risk to a greater extent than any other risk (Giesecke, 2004).

## **1.8 METHODOLOGY**

### **1.8.1 SOURCES OF DATA COLLECTION**

The following sources have been used for the purpose of gathering and collecting data as required.

#### **A. PRIMARY SOURCES:**

- Personal Interview
- Relevant documents studied as provided by the officers concerned.
- Personal diary (That contains every day's experience in bank while undergoing practical orientation).

#### **B. SECONDARY SOURCES:**

- Annual Report of Southeast Bank Ltd.
- Different publications of Bangladesh Bank
- Websites
- Articles
- Relevant books, research papers & journals

Both primary and secondary data sources have been used to generate this report. Primary data sources are informal discussion with professionals and observations while working in different desks. The secondary data sources are annual reports, manuals, and brochures of Southeast Bank Ltd. and different publications of Bangladesh Bank.

### **1.8.2 DATA ANALYSIS**

- This is a descriptive report mainly aiming to depict the credit approval process and monitoring techniques of Southeast Bank Ltd.

- The data gathered from both primary and secondary sources were arranged orderly to get a clear picture of the Southeast Bank's credit management policy regarding lending process and monitoring.
- Study includes both qualitative and quantitative analysis of loan approval process and monitoring tools.

#### **1.8.2.1 RESEARCH APPROACH:**

This study is conducted by using the research question and do not intend to go beyond it. Also, research question is based on previously existed theories and studies in this area.

#### **1.8.2.2 SAMPLING:**

Among all the well-established commercial banks in Bangladesh I chose Southeast Bank Limited. The information was collected from the annual reports of Southeast Bank Limited during 2010 to 2014.

#### **1.8.2.3 DATA COLLECTION:**

The data collected for my study is from Annual Reports for 5 years, 2010-2014. My study necessitates looking into credit risk management disclosure, financial statements and notes to financial statements within the annual reports of the bank.

### **1.9 LIMITATIONS**

- Delinquency of sufficient data for the year 2014 because the annual report of Southeast Bank Ltd. has not been published.
- It is very difficult to arrange appointment with the High Officials of the bank as they are very busy persons of their organization.
- Since credit related data of a bank is definitely highly classified, the management of the bank didn't help to provide some credit related data which of course would have enriched the study.
- Deficiency in the data required for the study.

- The research is limited in identifying the relationship of credit risk management and profitability of the bank. Thus, the other risks mentioned in Basel Accords are not discussed.
- Due to the unavailability of information in annual reports, our sample only contains data of 5 years' annual reports from 2010 to 2014 respectively.
- Since the banks in sample rejected to participate in our internet based survey, sufficient primary data was not possible to obtain. So, I arranged one face to face interview with one of the risk control officer in Southeast Bank Limited.

## **CHAPTER TWO**

# **CREDIT RISK MANAGEMENT OF SOUTHEAST BANK LIMITED**



## **2.1 LENDING POLICIES PRACTICED IN SOUTHEAST BANK LTD.**

### **2.1.1 LENDING PRINCIPLES:**

As liquidity and profitability are conflicting considerations, SEBL, as a bank, while employing the funds pays due regard to both profitability and liquidity. In order to secure a balance between liquidity, profitability and security, SEBL follows the following principles of sound lending:

#### **■ PROFITABILITY:**

All credit facilities granted to the Bank's customers must produce profit, either directly or indirectly. Spreads are normally associated with the element of risk undertaken and the period and nature of the facilities.

#### **■ SOURCE OF REPAYMENT:**

After satisfying the profitability principle, that is, the transaction will be profitable, next attention is to be given to the cash flow situation of the borrower. Before granting a facility, it is supposed to be ensured that a reliable source of repayment exists and that the advance will be paid within the agreed period.

#### **■ CHARACTER AND ABILITY OF THE BORROWER:**

The Branch manager is supposed to know his customer well and should be able to judge his intentions and ability to use the credit facilities to his advantage. Advance should be granted only to those borrowers in whom the branch manager has full confidence.

#### **■ PURPOSE OF THE FACILITY:**

The purpose of advance should be studied with a view to understanding whether it is within the policy of the Bank.

#### **■ INFORMATION REQUIREMENTS:**

To satisfy the majority, if not all, of the principles of lending detailed above, the branch should collect information on the following questions before considering whether credit facilities should be granted to the borrower:

- Character
- Capacity
- Capital
- Collateral
- Condition

#### ■ **TERMS OF THE FACILITY:**

Credit facilities are broadly divided under the following categories:

- Facilities needed for very short term requirements
- Facilities needed for current assets requirements
- Facilities needed for long-term /investment requirements.

#### ■ **SAFETY:**

To safeguard Bank's interest over the entire period of the advance, it will be wiser to have a comprehensive view of the capital of the borrower, capacity and integrity of the borrower, adequacy and nature of security in compliance with all legal formalities, completion of all documentation and finally a constant watch on the account for all advances will be in favor of adequate security.

### **2.1.2 LENDING POLICIES FOLLOWED BY SEBL**

Lending policies followed by the Southeast Bank Limited is given below:

#### ■ **SINGLE OBLIGOR/BORROWER EXPOSURE:**

Maximum exposure on a single borrower/obligor or a group for both direct or funded & indirect or non-funded is regulated as per Bangladesh Bank's instruction circular time to time or any other circular as issued by the bank.

#### ■ **GENERAL POLICY STATEMENT:**

In normal course of conducting its business, the bank prefers Trade Financing in the form of short-term, self-liquidating or cash flow supported well collateralized trade transactions.

#### ■ **OTHER POLICY STATEMENT:**

The bank considers lending short term working capital finance to entities engaged in manufacturing, assembling, processing, re-packaging of goods and commodities for domestic consumption or export market. Unsecured loans for working capital without justification or purpose are not to be considered. The bank, selectively, on a case by case basis, approves term

Loans but proposals are not to be considered unless they meet the separately established parameters for such loans.

- The bank on a selective basis does lease financing. The bank also finances real estate, long term mortgages/house building loans provided it meets the criteria.
- The bank on a relationship basis considers specific project financing.

- The bank, on a case by case basis, arranges loan syndications or approves disclosed participations in syndications provided such transactions meet the parameters separately established.
- Name lending or any loan based solely on the general standing and reputation of the borrower is not allowed.
- The bank does not entertain requests to start a new relationship if an objective assessment indicates a risk rating/grading of Marginal/Special Mention or below.
- The bank does not generally issue open ended guarantees and or guarantees which may be extended at the sole option of the beneficiary. Exceptions to this policy are:
  - Guarantees secured by 100% cash margin or cash equivalent held under lien
  - Shipping guarantees
  - Guarantees issued favoring Government Bodies or Organization, and for on behalf of prime relationships.
  - Guarantees favoring courts of law.
- The bank does not lend to sectors prohibited by Bangladesh bank credit policy guidelines.
- The bank sets up industry/business sector exposure limits, to be reviewed periodically and endeavors not to exceed 30% of its total exposure in one single industry/business sector to avoid concentration.
- Valuation of property taken as security should be performed prior to loans being granted. A recognized third party professional valuation firm should be appointed to conduct valuations.
- Tenure of loans varies depending on the nature of facilities. Short term working capital loan or trade finance transaction is specifically payable within a maximum tenure of one year. For project loan or other term loans, tenure is fixed depending on repayment ability and payback period of such transactions, provided however, maximum tenure is not exceeding fifteen years.

### **2.1.3 CREDIT APPROVAL AUTHORITIES**

Officers having delegated authority exercise the same with reasonable care/caution, keeping in view the interest of the bank. The approving authority adheres to the regulations of the bank, the Bank Companies Act 1991, Bangladesh Bank's circular/directives and instructions issued from

time to time on credit restrictions, margin restrictions, credit duration and its repayments and other Govt. directives. Executives/Officers of the bank exercise their authorities only when they are holding related positions or are posted in the related division in head office. Special features of the approval authorities are: The entire credit proposals are approved by Head Office of Southeast Bank Ltd. No proposals are approved in the branch level.

#### **2.1.4 FUNCTIONS & RESPONSIBILITIES OF CREDIT PERSONNEL**

The single most important line of distinction between Relationship Manager (Corporate) and Credit Managers (Credit Risk Management) is that while the former group will have primary responsibility of marketing, i.e. developing and sustaining the Banks business, (hence profit); credit Officers/Managers have no direct responsibilities for business generation. They will be responsible for ensuring quality of Credit Portfolio.

##### **■ RESPONSIBILITIES OF LENDING STAFF:**

In general, the expression, “Lending Staff” means and includes MD/CEO/DMD (operations)/Head Corporate Banking/all Relationship Officers/Managers and Head of Credit/all Credit Managers/Officers who will be involved in soliciting and approving credit proposals.

The entire lending staff is responsible for:

- Ensuring total understanding of the business of Bank’s customers and
- Exercising their authorities with due care and discretion
- Comply with the bank’s instructions, manuals, directives, policies and procedures etc. as issued from time to time and wherever applicable local regulatory instructions.
- Ensure complete and up to date review and analysis of the borrowing clients before recommending/approving a credit proposal.
- Jointly working with credit administration personnel to ensure appropriate implementation of the credit and follow ups to perfect documentations
- Jointly working with Credit Monitoring & recovery Division to ensure continuous follow up and monitoring/recovery of the credit.

##### **■ CORPORATE DIVISION:**

Corporate Division is expected to be the main vehicle to establish and maintain relationship with bank’s corporate and other commercial clients. The responsibilities of this division can be listed below:

- To identify target clients, initiate/establish new customer relationships and renew/strengthen existing relationships.
- To analyze market, industry and competitive environment and adapt to changes in strategies to achieve business goals in an on-going basis.
- To carry out credit/risk analysis, risk grading, prepare credit memo/presentations and make recommendations.
- To structure loan terms/agreement to reasonably ensure borrower's capacity to repay loans as well as to protect interest of Bank/depositors.
- To maintain thorough knowledge of borrower's business and industry through regular contacts, factory/warehouse inspections, etc. Relationship Managers should proactively monitor the financial performance and account conduct of borrowers.
- To update credit information on clients and review risk grading on a periodic basis and have the changed risk grade(s) approved through CRM; also seek assistance from CRM regarding restructuring/rescheduling of facilities, as and when required.
- To maintain regular contact with clients, ensure early identification and prompt reporting of deteriorating credit sign.
- Within 7 days of an account being downgraded to Sub-standard, a Request For Action (RFA) and a handover/downgrade checklist should be completed by Relationship Manager (RM) and forwarded to recovery unit (RU).

#### ■ **RESPONSIBILITIES OF THE RELATIONSHIP MANAGERS (TEAM):**

The Relationship Manager (RM) is the person primarily responsible for the overall relationship from both business and credit perspectives:

- Initiating new credit lines and ensuring timely renewal of approved credit lines.
- Provide good customer service while ensuring that the Bank's interest is protected.
- Grow the customer base through marketing and business development efforts, including cross selling to existing customer base.
- Obtaining, reviewing and validating all necessary information for timely and accurate processing of credit proposals.

- Ensuring appropriate implementation of the credit after approval, ongoing review, renewal and supervising the use of the facilities in the designated manner.
- Seek assistance from CRM at the earliest if adverse trends in a customer's financial position are noted.

And in conjunction with Credit Administration/Credit Monitoring and Recovery:

- Securing all necessary and adequate legally enforceable documentation.
- Perfecting all securities, collaterals and supports before drawdown, i.e. implementation of approved limits.
- Ensuring that all necessary internal and external controls and policies are complied with during the continuation of the credit.
- Ensuring to report to the superiors and senior management regarding any mark of deterioration in the credit/risk-rating of the account under his responsibility.

#### ■ **CREDIT DIVISION:**

Credit Division ensures sound asset quality and a conservative credit culture throughout the lending activities, while ensuring that the credit approval process is responsive to customer needs with no credit losses and negligible collection costs. Head of Credit and its team are to provide an independent, third party assessment/approval of credit and business risks of the bank.

Key responsibilities of Credit division are:

- Formulate, establish and implement the bank's credit and lending policies.
- Provide inputs to and co-ordinate with the respective business heads on the individual group's loan portfolio composition, parameters of risk assets and industry concentration.
- To oversee Bank's credit policies, procedures and controls relating to all credit risks that arises from corporate/commercial/institutional banking, personal banking.
- To approve (or decline), within delegated authority, Credit applications recommended by Relationship Manager (RM).
- To issue facility sanction advice and send copies to Corporate Division/Branches and Credit Administration Division.
- To review and update Bank's credit/procedural manual from time to time.

### **RESPONSIBILITIES OF THE CREDIT OFFICERS/MANAGERS:**

- Analyze, co-operate and as the case may recommend, credit proposals requiring approval of Heads of Division/Deputy Managing Director (Operations)/Managing Director or Executive Committee of the Board or Board of Directors.
- Ensure that credit proposals at any level of authority are complete, correct and consistent with Bank's established policies & procedures, comply with regulations and meet the lending criteria.
- Ensure that latest (not older than 60 days) CIB report is in place and does not contain any adverse report.
- Assist the Relationship Manager to structure the credit lines which meets the bank's lending criteria as well as client's business needs.
- Maintain an awareness of market and business conditions in so far as these impact the Bank's loan portfolio.
- Prepare and submit all required information and reports as directed from time to time by the Heads of Division.

### 2.1.5 CREDIT APPROVAL PROCESS

The credit approval process reinforces the segregation of Relationship Management/Marketing from the approval authority.

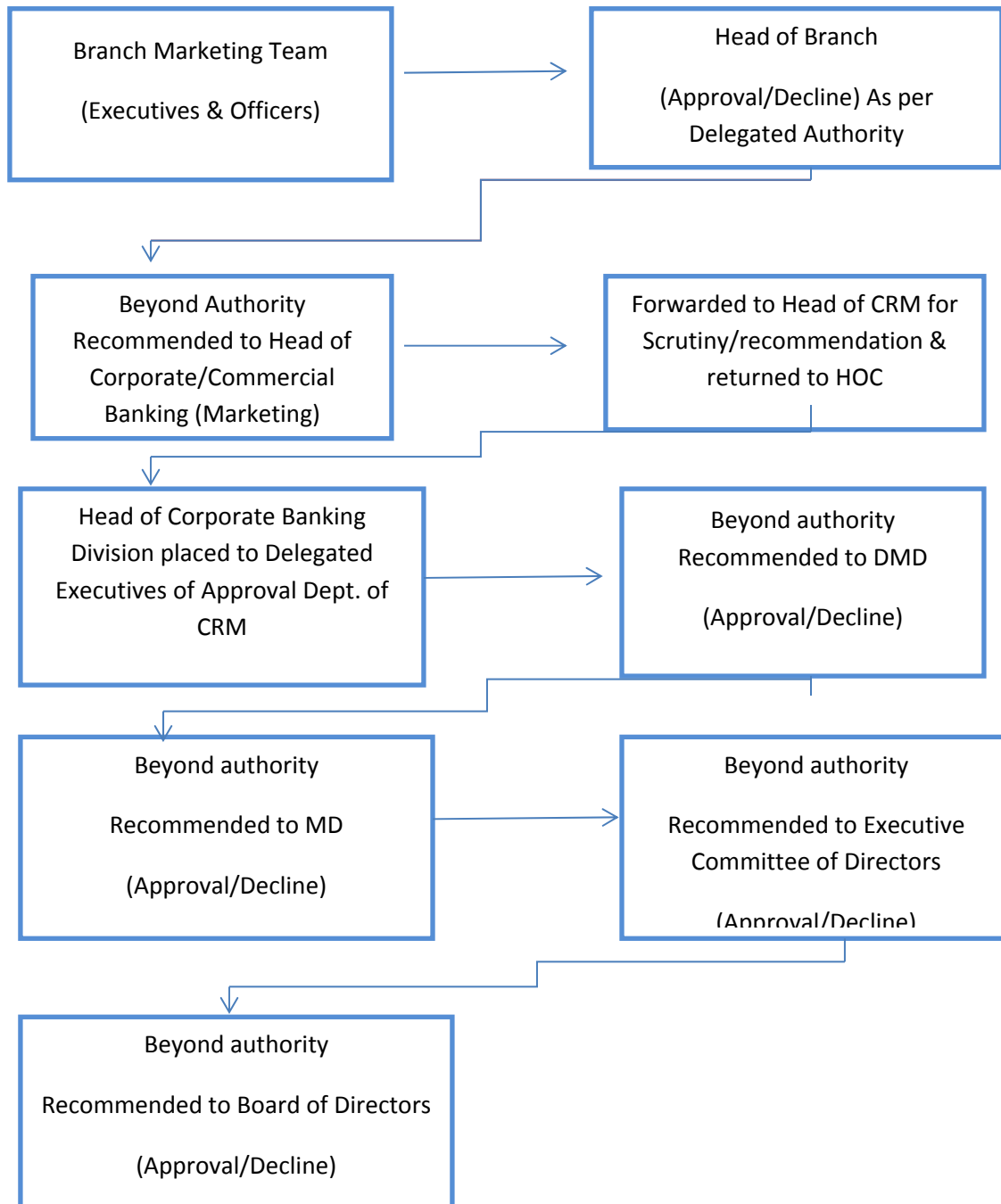


Figure 5.2: Credit Approval Process



### 2.1.6 PROCESSING OF CREDIT PROPOSALS

The client shall submit loan application form with necessary papers/documents as per Bank's checklist. On receipt of the loan application form; branch shall scrutinize the papers to ensure the following:

- All the columns of the application form have been filled in with appropriate information and the application is signed.
- All the papers/documents containing requisite information as per checklist have been submitted.

Management approval levels splits into following authority levels:

- Head Office Credit Committee
- Delegated authority to the Managing Director
- Executive Committee of the Board

The Credit Committee is responsible to review and approve or reject any credit proposals on the basis of lending policy, lending criteria, sectorial exposure and/ or on other genuine grounds. Credit Committee usually meets on every week or more frequently as the need may arise. Under delegated lending authority to the Managing Director, credit proposals, one time or specific gets approval after inspection is done by Head Office Credit Division. From time to time the Managing Director may delegate the branch managers discretionary powers with due approval from the competent authority.

Head Office deals with analyzing, reviewing of proposals emanating from branches and have the following responsibilities:

- Reviewing and analyzing the proposal on the basis of merits and complying with usual norms and procedures and within the policy guidelines of SEBL.
- Processing of credit limit proposals for review by Credit Committee for approval and renewal
- Monitoring of loan portfolio of branches including non-performing and classified accounts.
- Periodic review of various advances related statements.
- Identification and pursuing potential irregular advances.
- Monitoring and implementation of SEBL's credit policy.

Credit proposal originates in the branch. Proposal after due checking, and analysis is sent with recommendation signed by the manager and the credit officer in-charge.

### **2.1.7 CREDIT ASSESSMENT**

Prior to granting any loans, due diligence is to be conducted to assess and show how the risks inherent in a credit application. The risks identified are to be addressed and shown how they are mitigated. The analytical results along-with all information relevant to the Credit application are to be presented through a Credit Memo. Credit applications summarize the results of RM's risk assessment and include at the minimum the following details:

- Amount and type of loan proposed
- Purpose of loans
- Loan structure (Tenure, Covenant, Repayment Schedule, Interest Rate) etc.
- Security arrangement

In addition, they conduct borrower analysis, industry analysis, supplier/buyer analysis, historical financial statement analysis, projected financial statement analysis, adherence to lending policy, loan structure, security, name lending are also properly scrutinized.

### **2.1.8 CREDIT RISK GRADING (CRG)**

Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. A CRG deploys a number/alphabet/symbol as a primary indicator of risks associated with a credit exposure. It is the basis module for developing a Credit Risk Management system. Well managed CRG systems promote bank safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. The process also allows bank management to manage risk and to optimize returns. The CRG scale consists of 8 categories with Short names and Numbers are provided as follows:

GRADING	SHORT NAME	NUMBER
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WL	4
Special Mention	SM	5
Sub Standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

Table 5.2: Credit Risk Grading Scale

### 2.1.9 CREDIT ADMINISTRATION

Credit administration function is critical in ensuring that proper documentation and approvals are in place prior to disbursement. It is essential to strictly segregate Credit Administration from RM to avoid possibility of controls being compromised or issues not being highlighted by the appropriate authority. SEBL follows a strict administrative control over sanctioned credit facilities. These steps are as follows:

1. Convey offer /sanction letter to the borrower
2. Branch credit officers perfect the security and charge documents considering the nature and the terms of facility and the securities and in accordance with the laws of the land. Head Office will provide guidance to branches from time to time in this regard. Where considered, necessary advice of SEBL's panel lawyers should be obtained.
3. An account number is allocated to the new credit facility.
4. The account record is set up and borrower's file is prepared.

**DISBURSEMENT:** Disbursement of advance can take in the form of loans, overdrafts, cash credit, Inland Bill Purchased, Payment against Document, Trust Receipt & Long term loan etc.

### **2.1.10 CREDIT MONITORING**

This will include supervision at the time of disbursement to ensure proper utilization of bank credit, to supervise end use during the tenure of advance and to ensure that the repayment is regular. The control of credit operations falls into two main parts, namely:

#### **EARLY ALERT PROCESS:**

It depends on early identification, prompt reporting and proactive measures. This is a responsibility of RM who will report to CRM within 7 days of identifying a weakness and risk grades should be updated as soon as possible and the problem account should be referred to CRM for assistance in recovery.

#### **EARLY ALERT REPORT:**

It should be raised on breach of loan covenants and adverse market rumors that warrant additional caution.

### **2.1.11 CREDIT RECOVERY**

Also Recovery Unit (RU) of CRM directly manages accounts with sustained deterioration (accounts with below standard risk rating). Whenever an account is handed over to RU, a handover/Downgrade checklist is completed.

#### **RU'S PRIMARY RESPONSIBILITIES:**

- Determine account action plan/recovery strategy
- Pursue all options to maximize recovery
- Ensure maintenance of adequate and timely loan loss provisions based on actual and expected loss
- Regular review of account with worst grading.

When repayment is not forth coming in accordance with the repayment terms, recovery efforts should be launched. When the repayment pattern of the advance is such that continuance of the facility is not worthwhile or while the advance allowed on installment has been defaulted or the advance allowed confronts with the following circumstances, advance should be recalled:

- Borrower or the grantor dies.
- Borrower or the grantor has become insolvent.

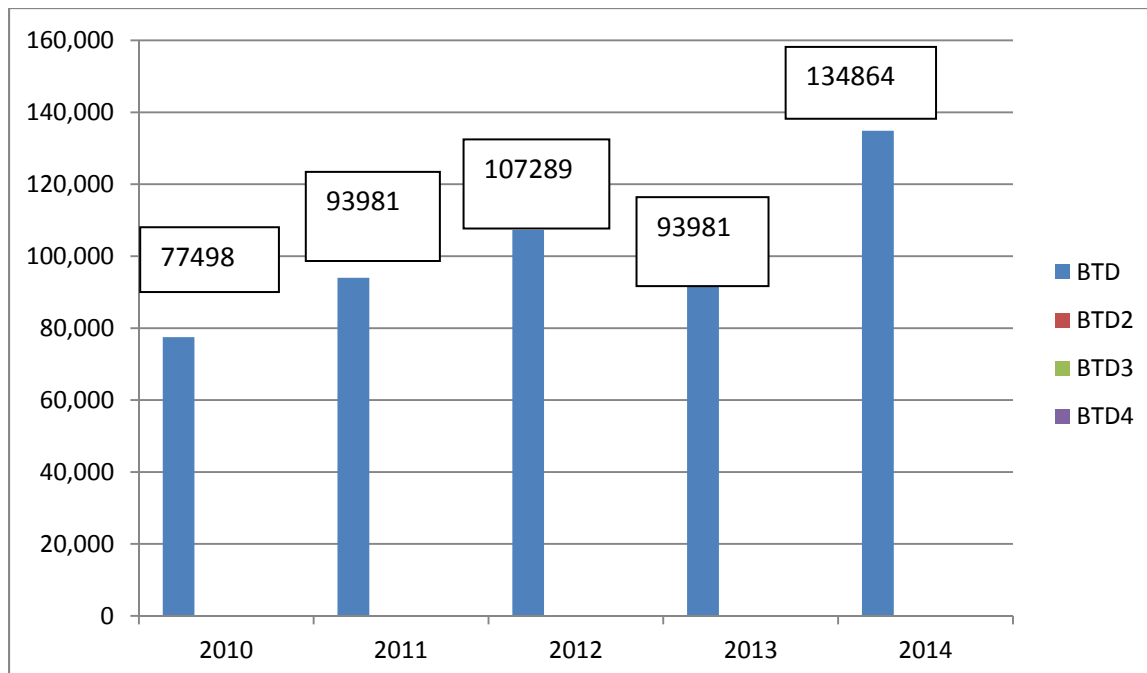
- Borrowing Company has been liquidated.
- Borrower does not come forward to renew the documents much before the expiry or the expiry of the period of limitation.
- Value of the security has been deteriorated.
- Financial position of the borrower has deteriorated alarmingly which is beyond restoration.
- The party commits any sort of fraud.

## 2.2 STUDIES ON CREDIT DISTRIBUTION

### TOTAL LOANS & ADVANCES:

#### Trend of Loans and Advances

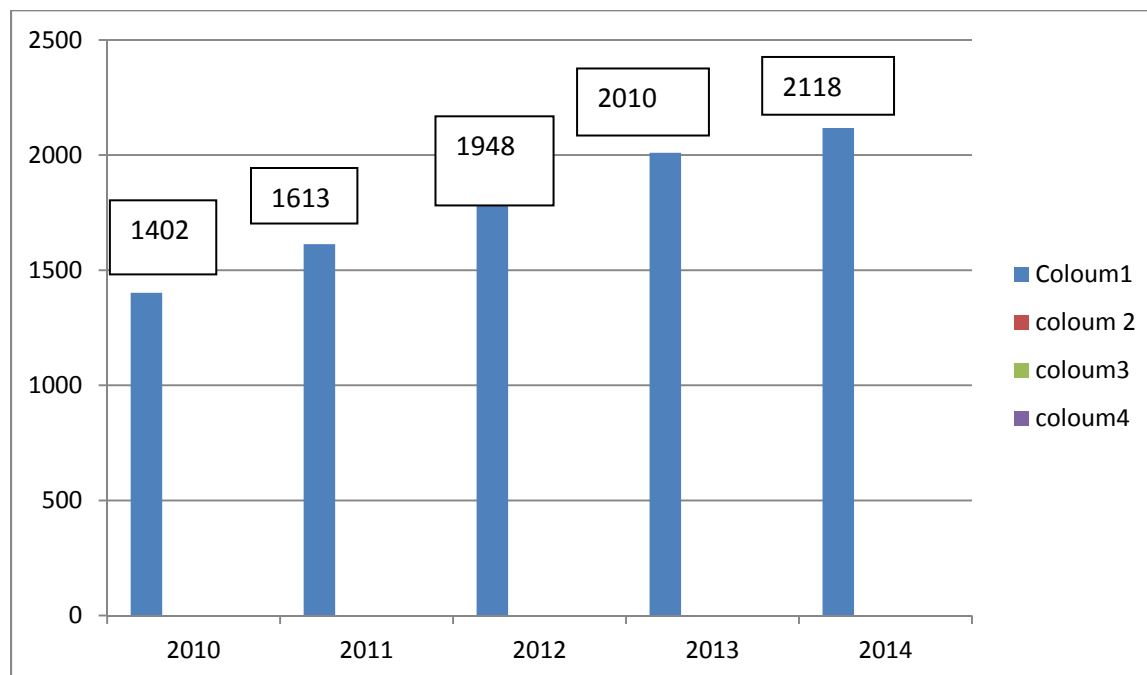
BDT in million



**Interpretation:** The bank is showing increasing trend in the amount of loans & advances. Average loans & advances are high for Southeast Bank Ltd. but the std. deviation is high. So we can say that though it's increasing but not stable.

## Manpower Position in last

### Manpower Position in last 5 years



### 2.2.1 Analysis of income and Expenditure Statement Interest Income

For the year 2014 interest Income of the Bank was BDT 19,200.64 million as against BDT 17,394.05 million of the previous year, thus recording a growth of 10.39 percent.

The income growth generated mainly from Loans and Advances which remained the main contributor.

### Interest Expenses

Total Interest Expenses in 2014 was BDT 17,233.51 million as against BDT 15,302.55 million of 2013, posting an increase of 12.62 percent.

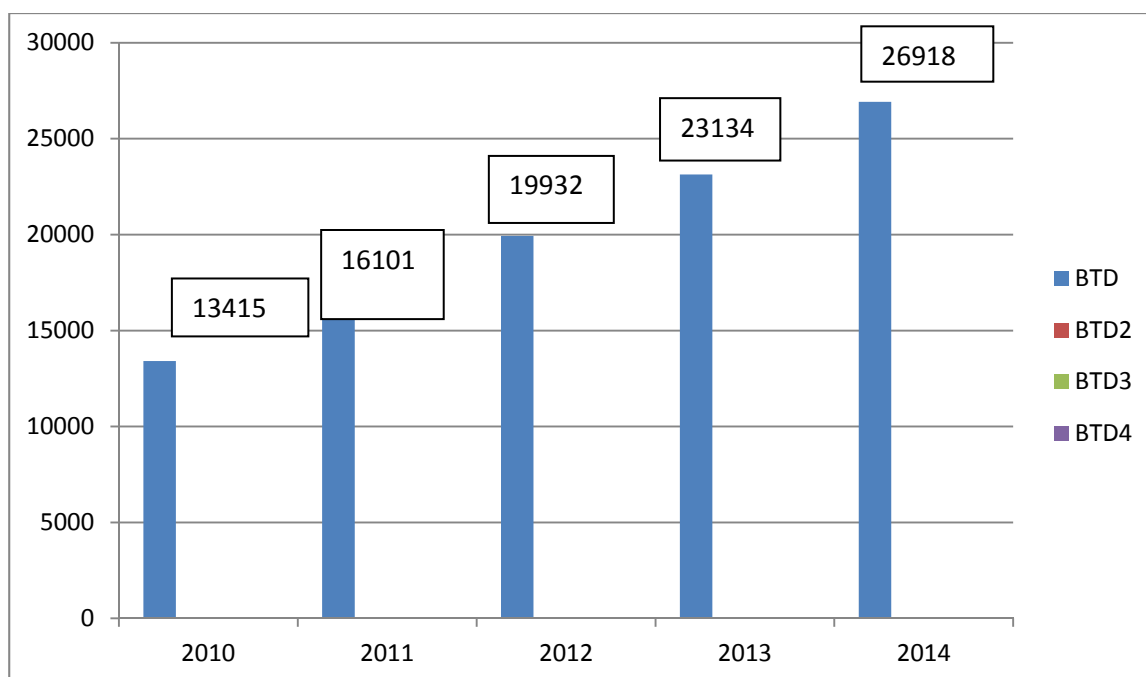
### Net Interest Income

The net interest income of the Bank for the year 2014 stood at BDT 1,967.13 million against BDT 2,091.50 million of the previous year.

### Investment Income

In 2014, Bank's income from investment was BDT 4,782.65 million as compared to BDT 3,258.44 million of the previous year. Investment income consists of interest earned on treasury bills and bonds and dividend received from shares.

**Total Income**  
**BDT In Million**



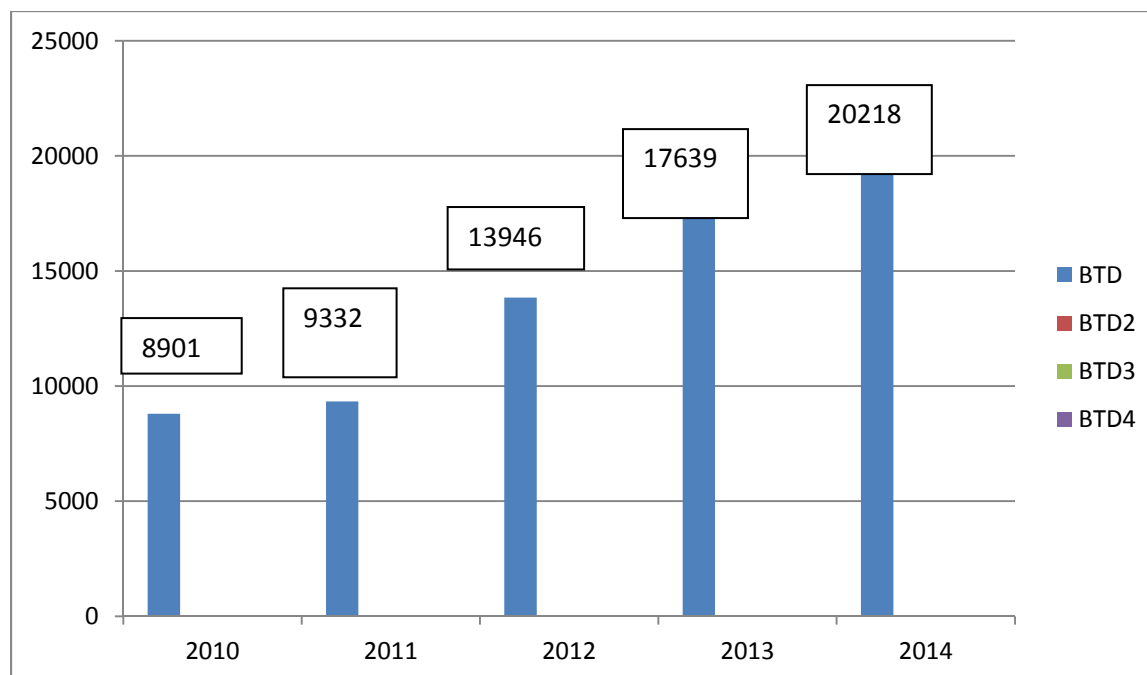
### Other Income

In the year under review, commission, exchange and brokerage earnings increased to BDT 2,440.37 million from BDT 2,053.68 million of 2013. This was due to the enhanced trade related fee based activity.

### Operating Expenses

Operating expenses in the year 2013 was BDT 2,336.44 million which stood BDT 2,984.60 million in 2014 resulting in an increase of 28 percent.

**Total Expenses**  
**BDT In Million**



### 2.2.2 Growth of Operating Profit for Last 5 years

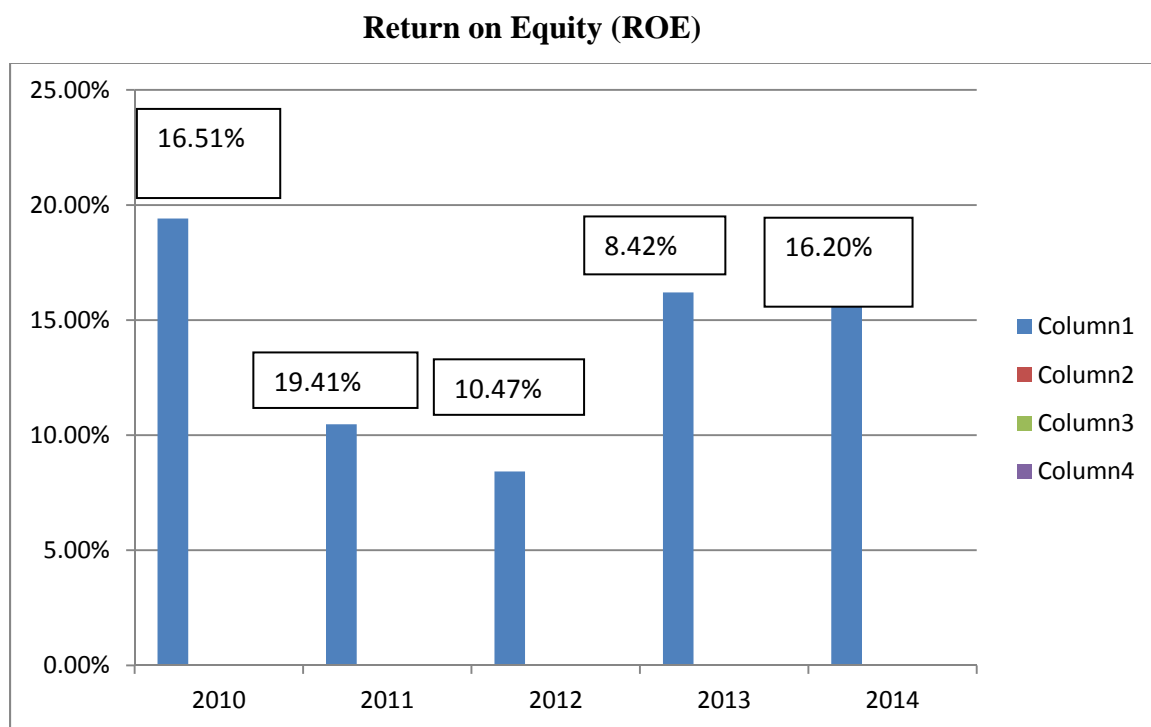
The Operating income of the Bank stood at BDT 8289.76 million during this year. Operating profit was BDT 6700.20 was in 2013. The operating income for the last 5 years is given below:

YEAR	Amount (BDT in Millions)
2014	8289.76
2013	6700.20
2012	5495.19
2011	6085.66
2010	6769.29



### 2.2.3 Return on Equity for last 5 years

During the year, Return on Equity (ROE) was 16.20 percent as against 8.42 percent of the previous year. The percentages of Return on Equity for the last five years are given below:

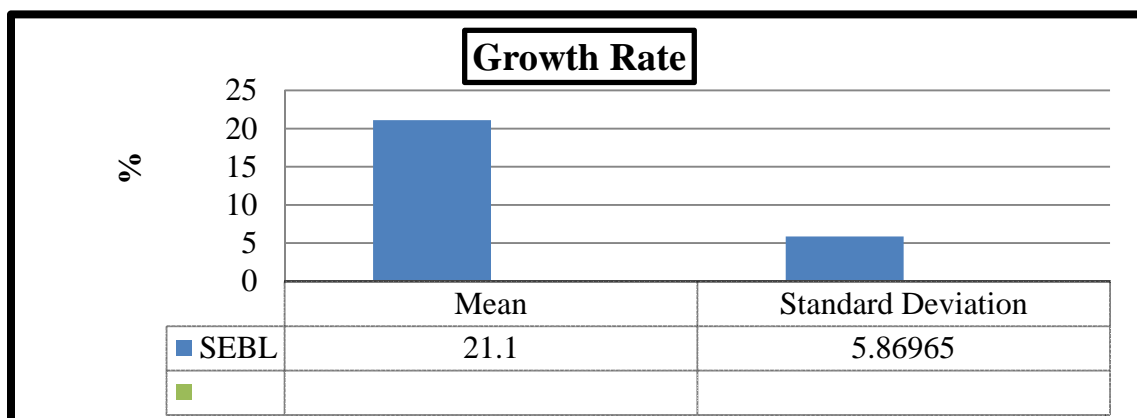


### 2.2.4 Assets Portfolio

As on 31<sup>st</sup> December, 2014, the total assets of the Bank stood at BDT 220,930.85 million. The break-up of the total assets are given below:

		BDT in million
a)	Cash and Cash Equivalent	17,169.01
b)	Investments	57,589.06
c)	Loans and Advances	134,863.82
d)	Fixed Assets	7,795.65
e)	Other Assets	3,513.31
<b>TOTAL :</b>		<b><u>220,930.85</u></b>

### 2.2.5 GROWTH RATE OF LOANS & ADVANCES:

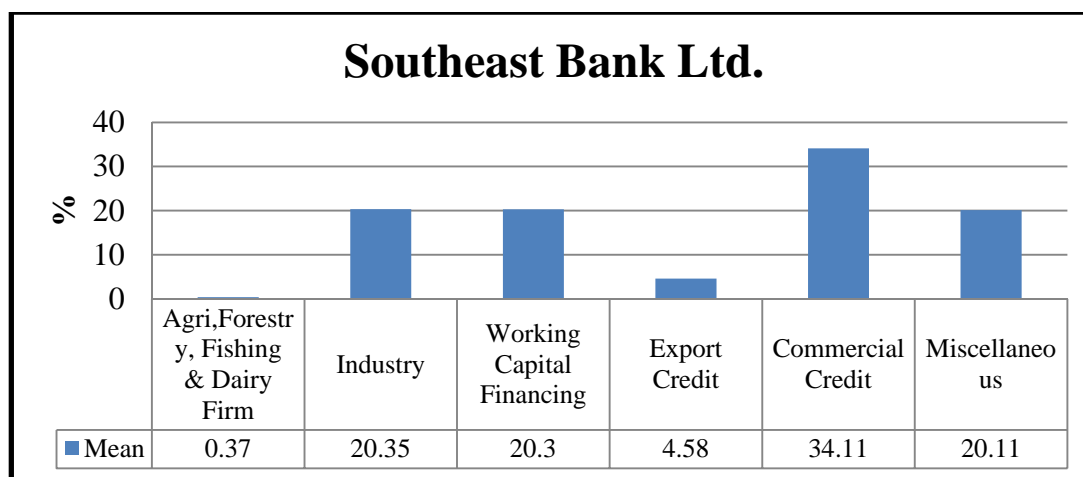


#### Interpretation:

As shown, growth rate of loans & advances of the bank are decreasing. Mean Growth rate of Southeast Bank Ltd. is 21.1% which is high & lower standard which reflects stability in the loan portfolio.

## 2.3 ANALYSIS OF CREDIT PORTFOLIO

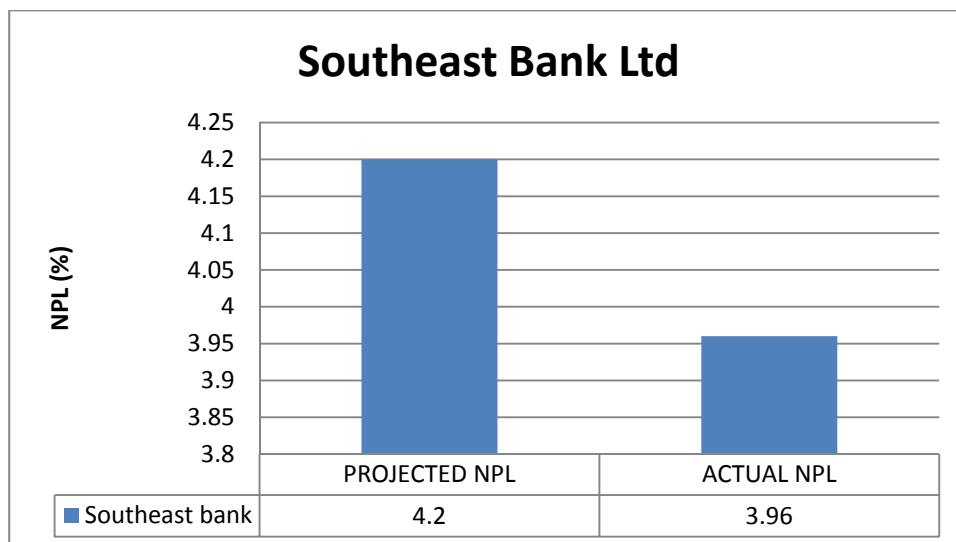
### SECTOR WISE DISTRIBUTION



**Interpretation:** Major concentration in industrial & commercial lending.

**PROJECTED & ACTUAL NPL SCENARIO**

**PROJECTED & ACTUAL NPL SCENARIO**



**Interpretation:** Projected NPL for Southeast Bank Ltd. is 4.2% for the year 2014. But the actual NPL of 2013 was 3.96%. So we can say that the credit risk management of Southeast Bank Ltd. is doing better. Their target is to maintain NPL below 5%. They are maintaining average NPL rate 4.01% which is below 5%.

**2.4 Classification Status of Credit Portfolio**

Southeast Bank strictly follows the rules and regulations of Bangladesh Bank regarding classification of loans and advances and provisioning. The classified loan position of the bank as on 31<sup>st</sup> December, 2014 stood at BDT 5,350.24 million which is 3.94 percent of total loans and advances of the bank. The detail status of the classified loans of the Bank as on 31<sup>st</sup> December, 2014 is depicted as follows.

(BDT in million)

Sl. No	Status	Amount	Percentage
<b>A.</b>	<b>CLASSIFIED LOANS</b>		
01	Sub-Standard	89.41	0.06
02	Doubtful	175.90	0.13
03	Bad/loss	5,084.93	3.75
	Sub-total	5,350.24	3.94
<b>B.</b>	<b>UN-CLASSIFIED LOANS</b>		
01	Standard	127,172.33	93.73
02	Special Mention Account	3,167.52	2.33
	Sub-total	130,339.85	96.06
<b>GRAND TOTAL (A+B)</b>		<b>135,690.09</b>	<b>100.00</b>

## **CHAPTER THREE**

### **FINDINGS & PROBLEMS**

## **FINDINGS:**

### **Credit:**

- “Credit is a promise of future payment in kind or in money given in exchange for present money goods or services”
- “In general credit means the granting of a period of time by a creditor to a debtor at the expiration of which the latter must pay the debt due.”

### **Loans and Advances and its important:**

The two main functions of a Bank are borrowing money from the public by accepting deposits and lending to the customers for development of trade, commerce, industry and agriculture. Thus banks are dealer in money and credit and they act as financial intermediaries between savers and investors.

The profitability of a bank always depends on the proficient manner and the avenues in which its resources are employed to yield the maximum income. Lending is by far the most significant function of modern banks. It comprises a very large portion of a bank's total assets and forms the backbone of the bank's structure. Major parts of banker's earning are mainly derived from these assets and a bank's strength depends considerably on the quality of its loans and advances.

The advances are now need-based and profit-oriented but liquidity and safety should be given the prime consideration for sanctioning loans and advances.

Importance of credit is realized from both macro and micro aspects of economy. At Macro level credit influences, and is influenced by, quantity of money, level of economic activity, imports and net foreign assets. At micro level credit influences behavior of economic sector (industry, agriculture), and behavior of economic agents (business, financial institutions, households)

### **Macro aspects:**

- Credit provides vital linkage among government sector, private sector, financial sector and foreign sector.
- Credit is an important determinant of money creation, and hence of production, consumption, and national income.

- Credit influences imports and capital movements, and hence the outcome of balance of payments. For example, excessive credit can lead to inflation, over importation, capital flight, and balance of payments deficit.

**Micro Aspects:**

- Credit is the most important activity of banks, because interest on loans constitutes the major part of bank income.
- Credit is important to business and industrial firms. Banks provide financing for imports working capital and investment.
- Credit is important to agriculture. Banks provide crop loans and financing for agri-business and for investment.
- Credit is important to households since it enables them to incur expenditures in excess of income in a given time period. Thus, credit supplements savings.

**Categories of Loan and Advances:**

Commercial banks make advances in different forms. All types of credit can be broadly classified into two groups:

- A. Funded Credit
- B. Non-funded Credit

**A. Funded Credit:** Any type of credit facility, which involve direct out flow of Bank's fund on account of borrower is termed as, funded credit facility. Funded credit facility may be classified into four major types:

1. Cash Credit (CC)
2. Overdraft (OD)
3. Loan
4. Bill Purchase and Discounted

Funded credit facility may have more types like,

1. Consumer Loan.
2. Loan against Trust Receipt

3. Payment against Document.
4. Short-term Agriculture and Micro Credit

**B. Non-funded Credit:** This type of credit facility does not involve direct out flow of Bank's fund on account of borrower. Though these types of credit facilities are primarily non-funded in nature but at times it may turn into funded facilities. As such, liabilities against these types of credit facilities are termed as "contingent liability".

#### 1. L/C (Letter of Credit)

**Cash Credit:** Cash credit is the favorite mode of borrowing by traders, industrialists, agriculturists etc. for meeting their working capital requirement. It is an elastic form of borrowing because the limits fluctuate according to the needs of the business.

There are two types of Cash Credits (C.C.):

- Cash Credit-Pledge
- Cash Credit-Hypothecation

**Cash Credit-Pledge:** CC-Pledge is sanctioned against pledge of marketable commodities.

**Cash Credit-Hypothecation:** Hypothecation is thus only an extended idea of pledge. In this case, ownership and possession of the goods remain with the borrower although by virtue of the hypothecation agreement and the bank can take possession of the goods if the borrower defaults.

#### **Overdraft:**

When a current account holder is permitted by the banker to draw more than what stands to his credit, such advance is called an overdraft.

Secured overdrafts are four types on the basis of securities:

- i. Secured Overdraft against F.D.R.
- ii. Secured Overdraft against Sanchaya Patra.
- iii. Secured Overdraft against Deposit Scheme.
- Iv. Secured Overdraft General.



**Loan:**

Under the Loan system, credit is given for a specific purpose and for a predetermined period to those parties who have either fixed source of income. Normally these loans are repayable in installments.

**Types of Loans:**

Banks grant loans for different periods- short, medium or long, and for different purposes. Broadly, the loans granted by banks are classified as follows:

- i. Short term Loans
- ii. Medium term Loans
- iii. Long term Loans

**Short term Loans:**

Short term loans are usually granted to meet working capital needs of the borrower. These loans are granted against the security of tangible assets, mainly the movable assets like goods and commodities, shares and debentures etc. Short term loans are repayable within duration of 1 year.

**Term Loans:**

Medium and Long-term loans are usually called “Term Loans”. Medium-term loans repayable over a period of 2 to 5 years, are granted for the purchase of durable goods like vehicles, equipment’s for professionals and other tool and machinery etc. Long-term loans, generally called ‘term loans’ are extended by banks for a period over 5 years for the establishment of new units and for expansion or diversification of an existing unit.

**Bill Purchase and Discounted:**

Purchase and Discounting of Bills of Exchange is another way of employing the bank funds. Such Bills of Exchange arise out of commercial transactions both in inland trade and foreign trade.

**Consumer Loan:**

The objective of this loan is to provide essential household durables to the fixed income group (Service Holders) and other eligible borrowers under the scheme.

**Loan against Trust Receipt**

Two different types of Trust Receipts will in use to cover the following area of credit lines:

A) Letter of Trust Receipt (For Release of Shipping Documents)

B) Letter of Trust Receipt (For Pre shipment Financing)

**Payment against Documents:**

The negotiating bank, on receipt of the shipping documents from the exporter, scrutinizes the documents to ensure that they are in strict conformity with the terms of L/C. If the documents are in order, the payments is effected by the negotiating bank to the beneficiary (exporter) and debit the opening bank's account with it or claim reimbursement from the designated/reimbursing bank as instructed by the opening bank and, in fact, the amount so debited or lodging claim for reimbursement stands advanced on behalf of the importer. The shipping documents along with debit advice are thereafter forwarded to the opening bank by the reimbursing bank.

**Short Term Agriculture and Micro Credit:**

Short-term Agriculture Credit will include the short-term credits as listed under the Annual Credit Programmed issued by the Agriculture Credit and Special Programmers Department (ACSPD) of Bangladesh bank. Credits in the agriculture sectors repayable within twelve (12) months will also be included here in.

**Letter of Credit (L/C):**

Letter of credit (L/C) can be defined as a “credit contract” whereby the buyers bank is committed (on behalf of the buyer) to place as agreed amount of money at the seller's disposal under some agreed conditions.

### **There are two types of LC:**

#### ➤ **Revocable credit:**

A revocable credit is credit, which can be amended or cancelled by the issuing bank at any time without prior notice to the seller.

#### ➤ **Irrevocable credit:**

An irrevocable credit constitutes a definite undertaking of the issuing bank (since it cannot be amended or cancelled without the agreement to all parties thereto), provided that the stipulated documents are presented and the terms and conditions are satisfied by the seller. An irrevocable credit can be either confirmed or unconfirmed depending on the desire of the seller. This sort of credit is always preferred to revocable letter of credit.

### **Parties involved in an L/C:**

1. Importer/buyer
2. Opening/issuing bank
3. Exporter/seller/beneficiary
4. Confirming bank
5. Negotiating bank
6. Paying/reimbursing bank

Operations of documentary letter of credit:

The following five major steps are taken in the operations of documentary letter of credit:

1. Issuing
2. Advising
3. Amendment (if necessary)
4. Presentation
5. Settlement

**Issuing a Letter of Credit:** Before issuing a L/C, the buyer and seller located in different countries, conclude a 'sales contracts' providing for payment by documentary credit.

**Advising Letter of Credit:** Advising through bank is a proof of apparent authenticity of the credit to the seller. The process of advising a credit consists of forwarding the original credit to the beneficiary to whom it is addressed. Before forwarding, the advising bank has to verify the signatures of the officers of the opening bank and ensure that the terms and conditions of the credit are not in violation of the existing exchange control regulation and other regulations relating to export. In such act of advising, the advising bank does not undertake any liability.

**Amendment of Credit:** Parties involved in a L/C, particularly the seller and the buyer cannot always satisfy the terms and conditions in full as expected due to some obvious and genuine reasons. In such a situation the credit should be amended.

**Presentation of Documents:** The seller being satisfied with the terms and conditions of the credit proceeds to dispatch the required goods to the buyer and after that, has to present the documents evidencing dispatching of goods to the negotiating bank on or before the stipulated expiry date of the credit. After receiving all the documents, the negotiating bank then checks the documents against the credit. If the documents are found in order, the bank will pay, accept or negotiate according to the terms of the credit and afterwards, sends the documents to the issuing bank. The issuing bank also checks the documents and if they are found as per credit requirements

**Settlement:** Settlement means fulfilling the commitment of issuing bank in regard to effecting payment subject to satisfying the credit terms fully. There are three steps of Settlement.

- Settlement by Payment
- Settlement by Acceptance
- Settlement by Negotiation

### **Lessons Learned from the Internship Program:**

In the short time I have learn many things. I have learned how to open different types account. Like SB, CD. How to inputs the name of clients, issuing date & pg. no in the inward register that I have learned. How to write customer name, A/C no, deposited money inward & outward

register copy that also I have learned. Communicate with the client is a very important part of any organization. These things I have learned in this bank. How to verify sing, how to use different types of seal, issue an ATM card and maintain organizational discipline all of these things I have learned in this Bank. How to loan account and what are the process that also I have learned in this Bank. Most important things I have learned in the bank and that is every important matter should be confidential.

1. Account Holder's Identification: When a person opened an account in the bank that time he/she has to be submitted NID or Passport Photo copy, 2 passport size photo of account holder and 1 passport size photo of nominee.
2. Source of income: Legal income source must. When a person open a bank account in the SEBL that time the bank officer simply interview a person like family background, occupation, source of money etc. Thesources of money are legal or illegal that is clear in the interview part.
3. Proper Introduction: When a client open an account in the bank it is a very important thing that known proper introduction. For the safety bank always keep contact number of the client.
4. Verify: Verifying the documents provided by the client such as NID, Passport, driving license, trade license, certificate of incorporation, board regulation which will protect the fraudulent activities of the client.
5. Bangladesh bank guideline: Compliance of Bangladesh bank guideline money laundering. Proper KYC (Know your customer) should be done at the time of opening of the account and subsequent follow up is required.
6. Cheque book collected: when a client opened an account in the SEBL, from that time the 15 days after the bank will give a cheque book to the client.

All of these things are controlled in the general banking system. From the general banking department I have learned that when a person open an account in the SEBL some documents are necessary. This is necessary of the banking safety.

**Clearing:**

1. To ensure that the cheque has been received for clearing in the proper beneficiaries account.
2. Proper endorsement on cheque must be ensured.
3. To verify fake/false/postdated cheque.

All of these things controlled in the clearing department. In this department I have learned that fake or false cheque will not accept in the clearing department.

**Remittance:** Anyone can send and received money from one country to another country through remittance. But the pin number should be match between receivers and sender. Every beneficiary has to fill up a form, which is basic information of that person. Every beneficiary has to show the NID or passport copy. Bank always keep a copy of sender and receivers basic information. All of the documents are verify in the bank. By the Verify bank ensure that the right beneficiary get the money from the sender. All of the steps follow in the SEBL for the reduce the risk in the remittance.

**Problems:**

Now-a-days everybody is depended in the media. We all know that media is a strong network. I think SEBL promote their banking through media.

Lack of effective advertising and promotion: An advertising and promotion is one of the weak points of southeast bank limited. SEBL has not any effective promotional activities through advertisement but other banks have better promotional strategy. Therefore most customers are still unknown about their Islamic Banking Branch.

Southeast bank use Ultimas software for performing their banking activities. But the software often hanged as because of slower upgrade of data by vender. Therefore it delays to performing banking activities at time.

## **CHAPTER FOUR**

### **RECOMMENDATIONS & CONCLUSION**

## RECOMMENDATIONS

Southeast bank is one of the potential banks in the banking sector in Bangladesh. The sat masjid road branch is a small branch. It was wonderful experience working at the southeast bank limited. The employee of the bank were very helpful and very nice to me .In spite, it was not an easy work to find so many things during this short time. Now I would like to present my observation give my opinion to improve the banking service and make their customer more satisfied.

First of all southeast bank should make its service prompt so that people need not to give more time in the banking activities and fell easy to perform all respective activities. Moreover, they have to come up with new facilities and offer which will attract more client and help to ensure their premium as well as loyal customer forever. Even, they can start again some of their old facilities,(For example, Double benefit scheme).For achieving keys of success they have to ensure the working process faster with better computers and operating systems. Then bank can have more ATM booths in dhanmondi's different location .More gifts, discount as well as differentiated interest rates on several loan and schemes for the premium Customers.

Southeast bank Ltd must prepare an organized set of plan regarding the advertising and promotional activities which should include billboard, media, internet advertising and dealing with classes of potential and existing customers

## CONCLUSION

Risk is an integral part of banking industry and the mainstay of risk management principle is to find equilibrium between risk and return. Bangladesh Bank, in October 2003, undertook a project for implementing Core Risk Management System including Credit Risk Management in every bank. Southeast Bank Limited has already taken the necessary measures for implementation of the same and is continuously striding ahead for its full compliance. All the credit functions are constantly supervised and monitored. For ensuring perfection of security documentation, SEBL is still continuing the unique process of rechecking of security documentation. To keep best MIS regarding credit, SEBL has installed a high tech state-of art Banking Software which allows better and more effective monitoring of loan portfolio than before. Also the bank's business is increasing day by day. The amount of investment is also



increasing in a significant manner. The bank achieves a mentionable profit every year. The bank management should be more cautious for selecting its investment areas so that this profit line goes upward day by day. Lacking of implementing CRM fully should be identified and proper steps should be taken in this regard in future.

A banker does not feel comfortable with bad debts in his portfolio. The failure of commercial banks occurs mainly due to bad loans which occur due to inefficient management of the loans and advances portfolio. Therefore any banks must be extremely cautious about its lending portfolio and credit policy. So far my bank has been able to manage its credit portfolio skillfully and keep the classified loan at a very lower rate. Thanks go to the standard and stringent credit appraisal policy and practices of the bank.

But all things around us are changing at an accelerating rate. Today is not like yesterday and tomorrow will be different from today. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that the bank has a robust credit risk management policies and procedures that are sensitive to these changes. To improve the risk management culture further, banks should adopt some of the industry's best practices that are not practiced currently.

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## **APPENDIX**

## Southeast Bank Limited

### Balance Sheet

As at 31 December 2014

<u>PROPERTY AND ASSETS</u>	<u>Note</u>	<u>2014</u> <u>Taka</u>	<u>2013</u> <u>Taka</u>
<b>Cash</b>	4		
In hand (including foreign currencies)		1,598,090,832	1,802,673,124
Balance with Bangladesh Bank and its agent banks (including foreign currencies)		13,859,383,546	10,955,385,255
		15,457,474,378	12,758,058,379
<b>Balance with other banks and financial institutions</b>	6		
In Bangladesh		4,283,513,456	2,706,540,365
Outside Bangladesh		1,436,133,394	695,263,596
		5,719,646,850	3,401,803,962
<b>Money at call and on short notice</b>	7	548,300,000	1,008,900,000
<b>Investments</b>	9		
Government		50,185,301,263	50,860,905,762
Others		4,340,489,849	4,974,783,578
		54,525,790,912	55,835,689,340
<b>Loans and advances/investments</b>	11		
Loans, cash credit, overdrafts etc./investments		142,663,958,484	130,010,888,059
Bills purchased and discounted		5,292,593,001	5,679,201,782
		147,956,551,485	135,690,089,841
<b>Fixed assets including premises, furniture and fixtures</b>	13	7,761,173,624	7,642,269,469
<b>Other assets</b>	15	4,247,207,922	4,241,364,275
<b>Non - banking assets</b>		-	-
<b>Total assets</b>		236,216,145,171	220,578,175,264
<b><u>LIABILITIES AND CAPITAL</u></b>			
<b>Liabilities</b>			
Borrowings from other banks, financial institutions and agents	17	7,751,301,954	7,921,435,000
<b>Deposits and other accounts</b>	19		
Current/AI-wadeeah current accounts and other accounts		18,934,771,357	14,201,428,330
Bills payable		2,701,462,407	1,914,532,727
Savings bank/Mudaraba savings bank deposits		13,531,823,040	14,118,813,852
Fixed deposits/Mudaraba fixed deposits		154,304,204,148	147,273,208,331
Bearer certificates of deposit		-	-
Other deposits		-	-
		189,472,260,952	177,507,983,239
<b>Other liabilities</b>	21	14,473,229,918	13,232,712,161
<b>Total liabilities</b>		211,696,792,824	198,662,130,400
<b>Capital/shareholders' equity</b>			
Paid up capital	22,2	9,169,501,760	8,732,858,820
Statutory reserve	23	7,792,812,001	6,444,821,277
Revaluation reserve	24	4,670,865,467	4,331,542,622
Other reserve	25	247,650,000	247,650,000
Translation Reserve		-	-
Retained earnings	28	2,638,523,119	2,159,172,145
<b>Total shareholders' equity</b>		24,519,352,347	21,916,044,865
<b>Total liabilities and shareholders' equity</b>		236,216,145,171	220,578,175,264

## Southeast Bank Limited

### Balance Sheet

As at 31 December 2014

OFF-BALANCE SHEET ITEMS	Note	2014	2013
		Taka	Taka
<b>Contingent liabilities</b>	30		
Acceptances and endorsements		30,725,219,938	32,847,491,207
Letters of guarantee		14,253,372,667	16,230,483,458
Irrevocable letters of credit		31,246,712,370	19,925,642,403
Bills for collection		14,739,309,970	12,300,432,174
Other contingent liabilities		1,220,084,000	822,339,000
		92,184,698,945	82,126,388,243
<b>Other commitments</b>			
Documentary credits and short term trade-related transactions		-	-
Forward assets purchased and forward deposits placed		-	-
Undrawn note issuance and revolving underwriting facilities		-	-
Undrawn formal standby facilities, credit lines and other commitments		-	-
		92,184,698,945	82,126,388,243
<b>Total off-balance sheet items including contingent liabilities</b>		92,184,698,945	82,126,388,243

The annexed notes 1 to 69 form an integral part of these financial statements.